

Amendments to Financial reporting standards issued in 2015.

Investment entities: applying the consolidation exception (Amendments to FRS 110, FRS 112 and FRS 28)

Background:

The investment entity consolidation exemption was introduced by *Investment Entities*, issued on 31 October 2012 and effective for annual periods beginning on or after 1 January 2014.

As FRS 110 Consolidated Financial Statement sets out the principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. It highlights special accounting requirements for investment entities, where an entity meets the definition of an 'investment entity'.

Guidance and key features of the Standards:

An entity is required to consider all facts and circumstances when assessing whether it is an investment entity, including its purpose and design. FRS 110 provides that an investment entity should have the following typical characteristics:

- obtains funds from one or more investors for the purpose of providing those investor(s) with investment management services;
- commits to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
- measures and evaluates the performance of substantiality all of its investments on a fair value basis.

In assessing whether it meets the definition described above, an entity shall consider whether it displays the following typical characteristics of an investment entity:

- holding more than one investment;
- having more than one investor;
- having investors that are not the entity's related parties; and
- having ownership interests in the form of equity or similar interests.

The absence of one or more of these characteristics does not prevent the entity from qualifying as an investment entity but indicates that additional judgment is required in determining why it is an investment entity.

In accordance with the Amendment to IFRS 10, IFRS 12 – Investment entities, the entity will not be disqualified from being an investment entity where it also carries out any of the following activities:

- Providing investment-related services to third parties and to its investors, even when substantial.
- Providing management services and financial support to its investees, but only when these do not represent a separate substantial business activity and are carried out with the objective of maximising the investment return from the entity's investees.

The exemption from consolidation only applies to the investment entity itself whereby a parent of an investment entity is still required to consolidate all entities that it controls, including those controlled through an investment entity subsidiary, unless the parent itself is an investment entity.

FRS 110 does not specify any disclosures, however in FRS 112 *Disclosure of Interests in Other Entities* outlines the disclosures required. The intention is to give relevant information to understand:

- significant judgments and assumptions made in making the investment entity determination;
- reasons for concluding why you consider your entity to be an investment entity, even if it does not have one or more of the typical characteristics; and
- information about unconsolidated subsidiaries and unconsolidated structured entities controlled by your entity.

What's New:

Investment Entities: Applying the Consolidation Exception (Amendments to FRS110, FRS 112 and FRS 28) clarifies, effective 1 January 2016, which this relates to a subsidiary that is not itself an investment entity and whose main purpose and activities are providing services that relate to the investment entity's investment activities.

It makes changes at clarifying the following aspects:

Exemption from preparing consolidated financial statements.

The amendments confirm that the exemption from preparing consolidated financial statements for an intermediate parent entity is available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures all of its subsidiaries at fair value.

A subsidiary providing services that relate to the parent's investment activities.

A subsidiary that provides services related to the parent's investment activities should not be consolidated if the subsidiary itself is an investment entity.

Application of the equity method by a non-investment entity investor to an investment entity investee.

When applying the equity method to an associate or a joint venture, a non-investment entity investor in an investment entity may retain the fair value measurement applied by the associate or joint venture to its interests in subsidiaries.

Disclosures required. An investment entity measuring all of its subsidiaries at fair value provides the disclosures relating to investment entities required by IFRS 12.

Effective date and transition requirements:

The amendments are effective for annual periods beginning on or after 1 January 2016 and must be applied retrospectively. Earlier application is permitted.

How PwC's Corporate Support Services can help you

Our Corporate Support Services team assists our clients in managing their business from Singapore incorporation and company secretarial compliance, through to preparation of monthly and year end accounts, annual returns, payroll services to meet both internal and statutory deadlines.

The guide is intended as a brief overview only – please contact us for further information and advice.

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